

**Top Secret**

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NATIONAL INTELLIGENCE DAILY CABLE

Friday 10 March 1978

CG NIDC 78/057C



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State Dept. review completed

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National Intelligence Daily Cable for Friday, 10 March 1978.

The NID Cable is for the purpose of informing senior US officials.

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## CHINA: Ambitious Economic Goals

- 25X1 [ ] China has publicized a few key targets in its 1976-85 economic program, lifting its longstanding policy of withholding such information. In his lengthy address to the Fifth National People's Congress, which ended Sunday, Premier Hua Kuo-feng provided data on the planned growth of total industrial and agricultural production and on the expected output of steel and grain; no information has been released on energy and foreign trade goals. Our preliminary analysis suggests that the goals are highly optimistic but feasible--assuming favorable weather, the completion of investment projects on schedule, and the restoration of political and economic stability.
- 25X1 [ ] To help maintain this stability, Hua called for the abolition of certain types of "revolutionary committees" that sprang up during the disruptive Cultural Revolution of 1966-69 and involved a great deal of rank-and-file participation in running industrial plants and agricultural communes.
- 25X1 [ ] These bodies, now blamed for much of the disruption in economic planning and management over the past decade, will be decommissioned in factories and farm units. Daily operational control will return to seasoned industrial and agricultural managers--a move that should contribute to achievement of China's ambitious economic targets.
- 25X1 [ ] After an inauspicious start on the Fifth Five-Year Plan (1976-80)--which has now been incorporated into the 10-year plan--considerable slack exists in both industry and agriculture. The projected increase of 10 percent per year during 1978-85 for the gross value of industrial production seems achievable, but it will require accelerated energy production and a large-scale industrial construction program, including increased imports of high-technology plants and equipment from Japan and the West.
- 25X1 [ ] The announced production goal of 60 million tons of steel by 1985--compared to 25 million tons in 1977--appears unrealistic; it implies a doubling of present steel producing capacity. Existing plans call for expanding the An-shan steel plant from a capacity of about 7 million tons to 12 million tons and building a new 6-million-ton steel combine in Shanghai.
- 25X1 [ ] Both projects involve purchases from Japan. Their completion, which is unlikely before 1985, would add less than 40 percent of the additional capacity needed.

25X1 [ ] Chinese efforts to renovate other plants, together with a more effective use of raw material inputs, could conceivably provide another 10 million tons of steel output annually. Under the best of circumstances, however, annual production could hardly exceed 50 million tons by 1985.

25X1 [ ] Peking's target of 400 million tons of grain in 1985--compared to 285 million tons in 1977--is extremely high, but it too could conceivably be met.

25X1 [ ] Grain production in China has not increased since 1975 because of bad weather. Peking has continued to stress farmland improvement, however, and the supply of modern farm inputs has increased markedly. A return to normal weather this year could lift output by some 20 million tons. China's planners are banking on early payoffs from expanded irrigation and seed improvement programs and from the rapidly increasing output of modern chemical fertilizer plants.

25X1 [ ] The goal of 4- to 5-percent annual growth in the total value of agricultural production should not be too difficult to achieve if the grain production target is attained. Other agricultural subsectors, such as livestock and subsidiary production, have consistently grown more rapidly than grain output, and the growth rate of total agricultural output has recently been about one percentage point higher than that of grain alone. [ ]

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## ARAB LEAGUE: Meeting Boycott

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*[redacted] Algeria's refusal to attend the Arab League foreign ministers session scheduled to open in Cairo on 27 March suggests that other hard-line Arab states and the Palestine Liberation Organization will also boycott the meeting.*

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*[redacted] Algiers said its decision was based on resolutions adopted by Algeria, Libya, Syria, South Yemen, and several Palestinian organizations at an anti-Sadat meeting in Tripoli last December, indicating that these countries--and Iraq as well--will boycott the meeting.*

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*[redacted] Observers in Cairo doubt that a ministerial-level meeting will be held, although a lower level meeting of Arab moderates who generally support Sadat may take place. If there is a meeting, the agenda will probably include the situation in the Middle East, a Saudi proposal for a Red Sea security conference, foreign intervention in the Horn of Africa, and a reassessment of Arab-US relations.*

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*[redacted] Renewal of the Arab League mandate of the Syrian-dominated Arab Deterrent Force in Lebanon, which ends on 28 April, may also be discussed. The Syrians presumably realize that their absence from the Cairo meeting could result in the*

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expiration of the mandate, and they are exploring other ways to legitimize their military presence in Lebanon. The Lebanese Government would prefer to maintain the Syrian presence under Arab League auspices but would probably have to accept a bi-lateral arrangement if Syria presses for one. [REDACTED]

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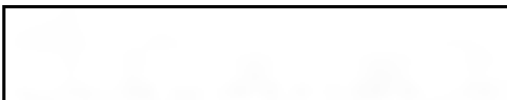
#### ISRAEL-MEXICO: Oil Supplies

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[REDACTED] *The Israeli Government has announced that Mexico will cover Israel's total requirements for crude oil in case of an emergency.*

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[REDACTED] *The agreement apparently is a direct result of the Shah's recent hints that Iran might embargo oil exports to Israel in an effort to stimulate progress in the peace negotiations.*



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25X1 [ ] Mexico now provides Israel 30,000 barrels of oil per day and has sufficient excess capacity to meet Israel's current daily consumption of 140,000 barrels. Israel's tanker fleet is large enough to deliver the projected increase. [ ]

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#### ROMANIA: Cabinet Reshuffling

25X1 [ ] *The sweeping reshuffle of the Romanian party and government leadership and wide-ranging economic measures announced on Tuesday are not likely to accomplish President Ceausescu's goal of stimulating the country's economy. Ceausescu has placed some of his closest associates in charge of implementing the measures, but they are likely to fail and thereby jeopardize their careers.*

25X1 [ ] The new measures further emphasize austerity and efficiency rather than revise basic economic policies. They include increased stress on reducing energy and material costs, a more intensive use of machinery, and a tough pay program that penalizes workers for failing to fulfill production targets. Enterprises that fail to achieve cost savings are also threatened with penalties.

25X1 [ ] The package also includes some sweeteners, but the government's willingness or ability to fulfill its promises is questionable. The regime hinted at increasing "self-management" of individual enterprises, promised to keep consumer prices close to the present levels while continuing to implement a program of pay increases for industrial workers, and said it will improve health, welfare, and consumer services.

25X1 [ ] This program probably will not speed up economic growth, which slowed last year as a result of natural disasters and shortages of energy, labor, and hard currency. Penalties for production shortfalls similar to those announced this week contributed to work slowdowns last year.

25X1 [ ] To put these measures into effect, sweeping personnel changes were made in the planning, foreign trade, financial, and industrial construction sectors. Ceausescu also transferred some of his top aides from the party's powerful secretariat to the government's economic apparatus.



25X1 [ ] Ceausescu is apparently counting on trusted associates with proven economic and administrative competence as he has in the past. Former party secretaries Ilie Verdet and Cornel Burtica now supervise planning and foreign trade. Gheorghe Oprea, one of Ceausescu's top economic advisers, was also named a first deputy premier. Deputy Premiers Paul Niculescu and Gheorghe Cioara, both members of the party's Political Executive Committee, will head the important ministries of finance and industrial construction.

25X1 [ ] Former Foreign Trade Minister Ion Patan, a close Ceausescu associate, appears to have suffered some setback in the reshuffle as did two former party secretaries, Ion Stanescu and Aurel Duma. Stanescu's fall may have resulted from the recent signs of restlessness among the Hungarian minority in Transylvania.

25X1 [ ] Two newly appointed party secretaries--Virgil Cazacu, former Romanian Ambassador to Yugoslavia, and Vasile Marin, a county party first secretary--are both newcomers in the top party hierarchy.

25X1 [ ] At a Central Committee plenum on 22 March, the party may fill the resulting two vacancies in the Secretariat and further reshuffle the leadership. [ ]

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#### ITALY: Budget Deficit Controversy

25X1 [ ] *//Italy's public sector deficit will far exceed the government's target this year, undermining efforts to slow inflation and improve the balance of payments. Attempts to curb expenditures are stymied by the vested interests of both the Christian Democrats and the Communists.//*

25X1 [ ] *//Rome's official target for the 1978 deficit is \$27 billion. The national industrial association believes the deficit will reach \$37 billion, while others assert it could go even higher. Even the government's goal would far exceed the level agreed to last August as a condition for a stand-by credit from the International Monetary Fund.//*

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[ ] //The Communists fear that a large deficit might erode recent improvements in the balance of payments and inflation. The party leadership sold austerity to its supporters by stressing the need to overcome Italy's financial crisis, and any economic setbacks would cause the party serious internal difficulties.//

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[ ] //The government has failed to control spending by the social security system, the health care administration, and regional and local governments. Many state-owned enterprises depend on government handouts to meet current salaries.//

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[ ] //Deficits in these and other "extra-budgetary" areas--for which the Treasury is ultimately responsible but over which it has little control--are increasing steadily. Pensioners will soon outnumber salaried employees. Spending for social services has tripled since 1970 and now equals 28 percent of gross domestic product.//

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[ ] //Attempts to economize within the bureaucracy or the state corporations are blocked by politicians who have used these sectors as patronage fiefdoms. Efforts to make the self-employed pay for their future pensions have been thwarted by Christian Democratic leaders who view shopkeepers and artisans as a valuable voting bloc.//

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[ ] //Plans by the Treasury to impose fiscal discipline on the regions and cities have run afoul of the Communists and Socialists, who control many regional and municipal governments. There is no political consensus to effect serious reform.//

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[ ] //Covering the deficit poses a dilemma for the government. Large-scale borrowing in the private market by the Treasury, combined with a recovery-inspired increase in private credit demand, would drive up real interest rates, threatening economic growth and investment. On the other hand, if the government resorted to monetary expansion to finance the deficit, it could lose the gains made last year against inflation. [ ]

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## CHINA-INDIA: Vajpayee to Visit

25X1 [ ] China's invitation on Wednesday to Indian External Affairs Minister Vajpayee to visit China is another indication of Peking's interest in improving relations with New Delhi. The two countries have exchanged cultural delegations and renewed trade ties since they exchanged ambassadors two years ago, but this will be the first visit at this level since their brief border war in 1962. Vajpayee accepted the invitation in principle, but no date has been set.

25X1 [ ] //In his report to the National People's Congress, Chinese Premier Hua Kuo-feng noted that "questions pending between China and India" do not prevent further improvement in relations, "provided serious efforts are made on both sides." An official of the Indian Embassy in Peking told the US Liaison Office on Wednesday that his government is "very happy" with Hua's remarks.//

25X1 [ ] During his trip to Nepal last month, Vice Premier Teng-Hsiao-ping expressed similar sentiments and avoided some formulations that had annoyed New Delhi in the past.

25X1 [ ] China has long been concerned with what it considers India's ambitions to dominate its neighbors. More important, China had become concerned over India's tilt toward the Soviet Union under the Gandhi government. China, however, has been pleased with Prime Minister Desai's recent efforts to balance India's close relationship with the USSR by improving relations with both the US and China.

25X1 [ ] Disagreement over the Chinese-Indian border remains the key obstacle to better bilateral relations. Peking made a low-key attempt last year to open negotiations on the border question, but neither side appeared prepared to compromise its longstanding position on the issue.

25X1 [ ] Chinese officials have indicated that border problems will be taken up during the current visit of a Chinese friendship delegation to India; the Indians expect the Chinese to propose more detailed discussions on the border issue in the future.//

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## BRIEFS

## Nicaragua

25X1 [ ] Nicaraguan General Reynaldo Perez Vega was assassi-  
nated Wednesday night by the Sandinist guerrillas. Perez, Na-  
tional Guard chief of personnel, is the highest ranking mili-  
tary man to be killed by the guerrillas. In response, the Na-  
tional Guard will probably take a tougher line against the  
25X1 Sandinist guerrillas and against threats to public order gen-  
erally. [ ]

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## Mali

25X1 [ ] //Malian Foreign Minister Charles Sissoko was  
arrested Wednesday on charges of treason. He is the fourth  
member of the ruling Military Committee for National Liberation  
to be removed from office. [ ]

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25X1 [ ] //Sissoko is regarded as a militant Marxist,  
and his arrest suggests that Traore may be paving the way for  
a more moderate government as Mali moves toward civilian rule--  
scheduled for next year. [ ]

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